Professional Ethics

Course Introduction

Learning Objectives

01	Explain why ethics matter within an organization.	**02**	Describe the elements of business ethics.	**03**	Evaluate the ethical culture of an organization.
04	Apply approaches to ethical decision-making.				

Course Instructor

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About Ryan

Ryan started his finance career based in London working in asset management.

He then moved to a corporate finance and capital markets training role, with these roles being based in Europe and then Asia, before joining CFI in 2023. Ryan is passionate about making learning about the finance markets as accessible as possible.

Expertise

His specific areas of expertise are risk management, capital and derivative markets, and asset management.

What is Business Ethics

Johnson and Johnson's Ethical Dilemma

In 1982, Johnson & Johnson, the iconic American company, faced an unprecedented challenge that would put their ethics and business practices to the test.

Johnson & Johnson had to consider:

- **Consumers** – Their safety and trust were paramount.
- **Employees** – Their morale and security depended on leadership decisions.
- **Shareholders** – Their investments were at stake.
- **Regulators** – They were watching to ensure accountability and compliance.

Johnson and Johnson's Ethical Dilemma

Do nothing	While this minimizes financial loss, it risks damaging public trust, as customers could perceive inaction as indifference, harming the company's reputation long-term.
Issue a localized recall	The risks of discovering broader contamination later could lead to stronger public backlash for not acting sooner.
Issue a nationwide recall	While costly, it sends a powerful message that customer well-being outweighs short-term profits, building long-term trust with stakeholders.

What Are Ethics

Ethics

A system of moral principles accepted by a social group

Moral Principles

The principles of right and wrong that are accepted by an individual or a social group

Different **social groups** will have **different moral principles**, and the rules of conduct in each social group may be different.

- Religious organizations
- Social groups
- Sporting events

What Are Business Ethics

Business or Corporate Ethics

A set of applied or professional ethics that are relevant to the group

Conduct

The way people act, governed by the business ethics of that organization

The way people respond to moral or ethical problems will be indicative of the ethical principles that the organization has adopted.

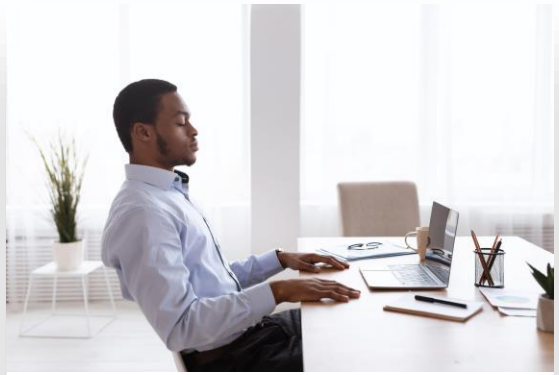
Essentially, it will be reflective of the corporate or ethical culture of the business.

Concepts of Business Ethics

AUTONOMY

Use of knowledge

- Not to be used to exploit or coerce another to act
- Not to be used for your own personal gain



DOING NO HARM

Take no action

- Won't steal, abuse, harass, slander, or any other action that could cause harm to another individual or the organization

DOING GOOD

Preventing Harm

- Protecting and defending the rights of others relates to this concept

JUSTICE

Being Fair

- Is the action that is being taken right?
- Has or will justice be done?
- Are people being treated fairly?

Conduct Risk and Business Ethics

Conduct Risk

Refers to risks arising from individual and organizational behavior. Includes potential for actions or inactions to:

- Result in unfair treatment of customers
- Damage market integrity
- Harm the organization's reputation

Examples of Conduct Risk

- Misleading financial advice
- Insider trading
- Failing to treat employees fairly

Importance of Business Ethics

They act as a safeguard, guiding behavior to ensure conduct risks are minimized.

How Business Ethics Mitigate Conduct Risk

AUTONOMY

DO NO HARM

DOING GOOD

JUSTICE

How Business Ethics Mitigate Conduct Risk

AUTONOMY

DO NO HARM

DOING GOOD

JUSTICE

Conduct risk arises when autonomy is abused—such as **when an employee uses confidential information** to gain an unfair advantage.

How Business Ethics Mitigate Conduct Risk

AUTONOMY

DO NO HARM

DOING GOOD

JUSTICE

For example, **failing to disclose risks** in a product or service can lead to financial losses for customers and reputational damage for the business.

A commitment to “do no harm” **ensures fairness and transparency** in every interaction.

How Business Ethics Mitigate Conduct Risk

AUTONOMY

DO NO HARM

DOING GOOD

JUSTICE

For example, a financial institution might establish clear procedures for whistleblowing to **ensure employees feel safe reporting unethical behavior.**

How Business Ethics Mitigate Conduct Risk

AUTONOMY

DO NO HARM

DOING GOOD

JUSTICE

When organizations prioritize justice, they foster an environment where **everyone is treated with respect**, regardless of position.

An Infamous Example of Unethical Behavior

Between 2011 and 2016, employees at Wells Fargo opened millions of unauthorized bank accounts and credit cards in customers’ names without their consent.

The scandal revealed significant weaknesses in the bank's corporate culture and oversight mechanisms and resulted in a $3 billion settlement, significant reputational damage, and the resignation of key executives, including CEO John Stumpf.

An Infamous Example of Unethical Behavior

Toxic Sales Culture

01

Wells Fargo's sales targets led to fraud as employees faced job loss for not meeting quotas.

Lack of Accountability

02

Leadership ignored warnings, letting unethical behavior escalate.

Harm to Customers

03

Customers were charged for unwanted services, causing harm and eroding trust.

Misaligned Incentives

04

Leadership prioritized profits over ethics, rewarding quota achievement regardless of methods.

An Infamous Example of Unethical Behavior

What are the **business ethics lessons** we can take away from what happened at Wells Fargo?

The Role of Corporate Culture

A culture that prioritizes profits over ethics creates systemic risks.

Organizations must ensure that their values align with ethical behavior at all levels.

The Importance of Leadership

Leaders must set the tone for ethical conduct.

Wells Fargo's leadership failed to act on early warning signs, allowing unethical practices to become entrenched.

Accountability and Oversight

Organizations must have robust systems to monitor and address unethical behavior.

The lack of accountability at Wells Fargo allowed misconduct to persist for years.

Impact of Misaligned Incentives

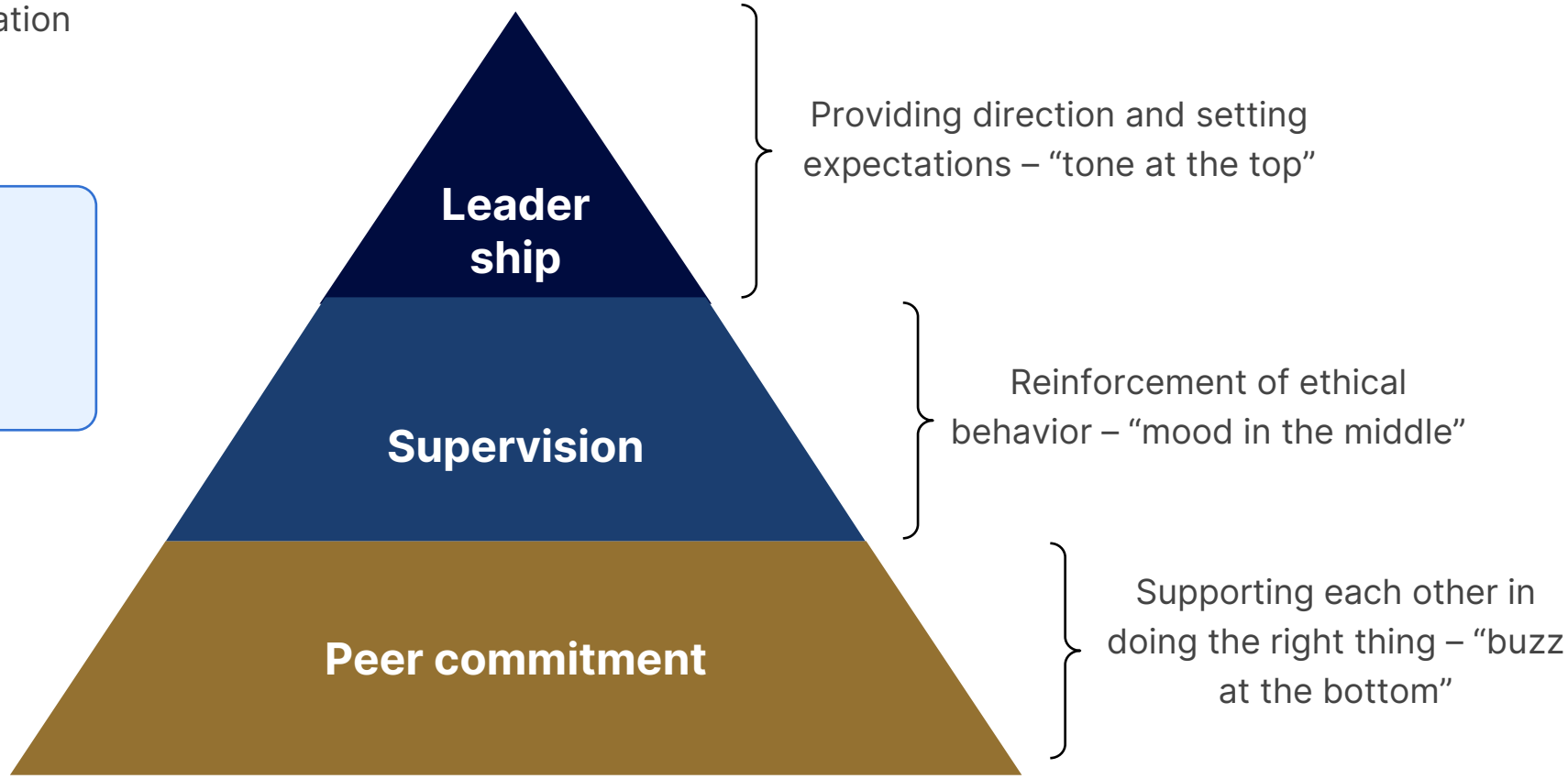
Incentives should encourage ethical and sustainable behaviors, not short-term results at any cost.

Business Ethics and Ethical Culture

Can a corporation be unethical?

It's **not the organization** that's unethical. Rather, it's **the people** within the organization that drive its culture.

> Culture is another way of saying "the way things are done around here."- ERC


Leader ship
Supervision
Peer commitment
Providing direction and setting expectations – "tone at the top"
Reinforcement of ethical behavior – "mood in the middle"
Supporting each other in doing the right thing – "buzz at the bottom"

Symptoms of a Weak Ethical Culture

The best way to gain a sense of the ethical culture in an organization is to **listen to what people are saying.**

Watch out for **rationalizations:**

This isn’t bad! You should have seen...

Everybody does this.

This is the way it has always been done.

It doesn’t really hurt anyone.

Symptoms of a Weak Ethical Culture

The best way to gain a sense of the ethical culture in an organization is to **listen to what people are saying.**

Watch out for **signals:**

Find a way!

Whatever it takes.

I don’t care how you do it.

So long as it’s legal.

Mitigating Ethics Risk and Conduct Risk

Managing Ethics and Conduct Risks in Organizations

Ethics risk is the potential for actions or decisions to conflict with an organization's ethical values, harming stakeholders, damaging its reputation, or eroding trust, often due to weak ethical culture or failure to uphold moral principles.

Conduct risk stems from behaviors causing unfair customer treatment, market harm, or reputational damage, such as misleading advice, insider trading, or unfair employee treatment, stressing the need for ethical alignment.

Managing Ethics and Conduct Risks in Organizations

Ethics risk and conduct risk are closely connected, as both impact an organization's ethical standards, reputation, and stakeholder trust.

- **Ethics Risk as a Foundation -** Misalignment between values and actions fosters an environment prone to unethical behavior.

Example:

A weak ethical culture that tolerates minor lapses (ethics risk) can escalate into harmful behaviors affecting customers or markets (conduct risk).

Managing Ethics and Conduct Risks in Organizations

Conduct risk manifests ethics risk by representing the real-world outcomes of unmanaged ethical failures.

Managing Ethics Risk

Prevents conduct risk by addressing root causes like poor guidance or unclear values.

Managing Conduct Risk

Prevents conduct risk by addressing root causes like poor guidance or unclear values.

The Fraud Triangle

What can cause misconduct to happen?

Opportunity

Is there an opportunity to commit the act?

Opportunities would be managed by having the proper preventive and detective controls.

Rationalization

Can the individual rationalize committing the misconduct?

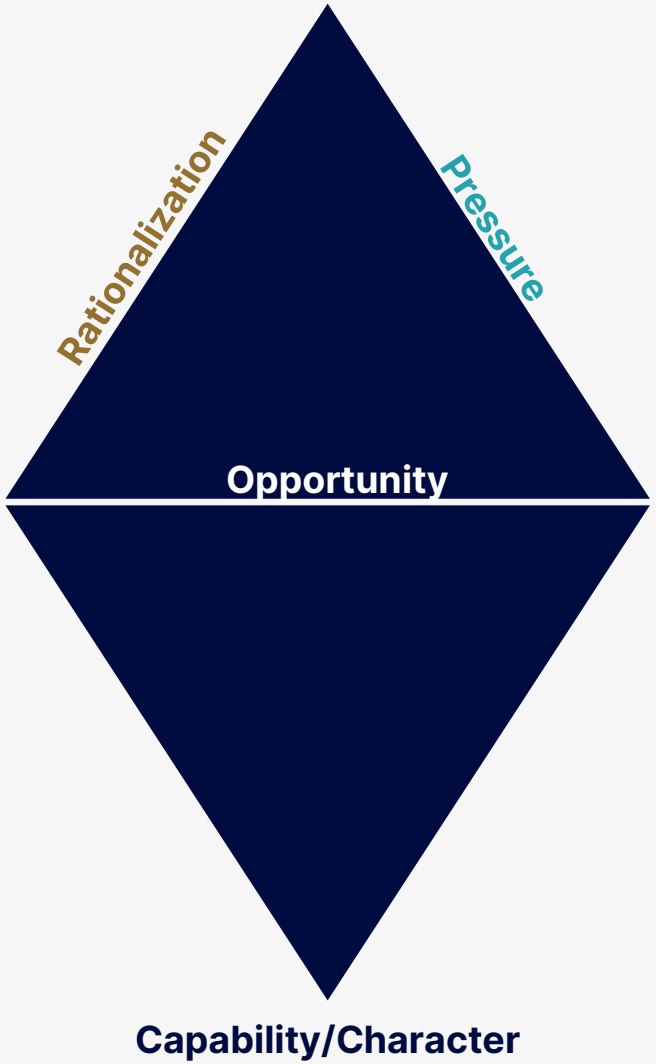
Rationalization is addressed by communicating corporate values and emphasizing those values, one of which should be respect.

Pressure

Is there some external pressure being put on the individual that would encourage that person to take advantage of the opportunity?

Pressure is addressed by having a strong ethical culture in the organization.

Fraud Triangle...or Diamond



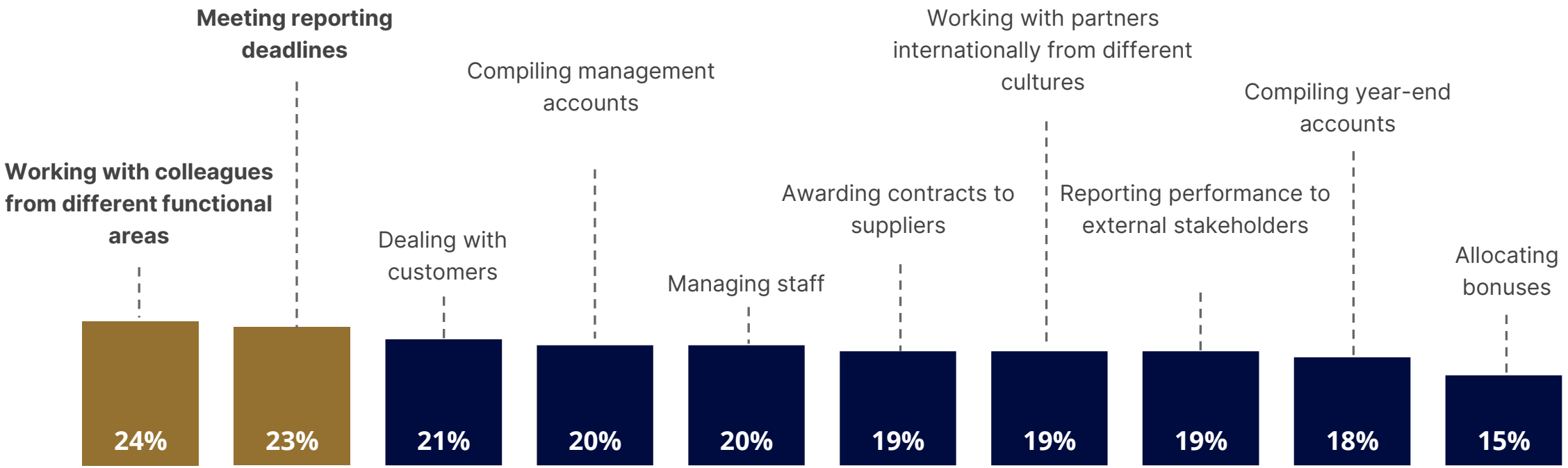
The fraud diamond theory came about in the post-Enron & WorldCom era back in early 2000s'.

All of the factors that form the triangle can be present, but it takes **capability** for the fraud, or misconduct, to occur.

- Understand your own moral principles
- Understand how you would react when faced with an ethical dilemma
- Reinforce that through training and mindfulness

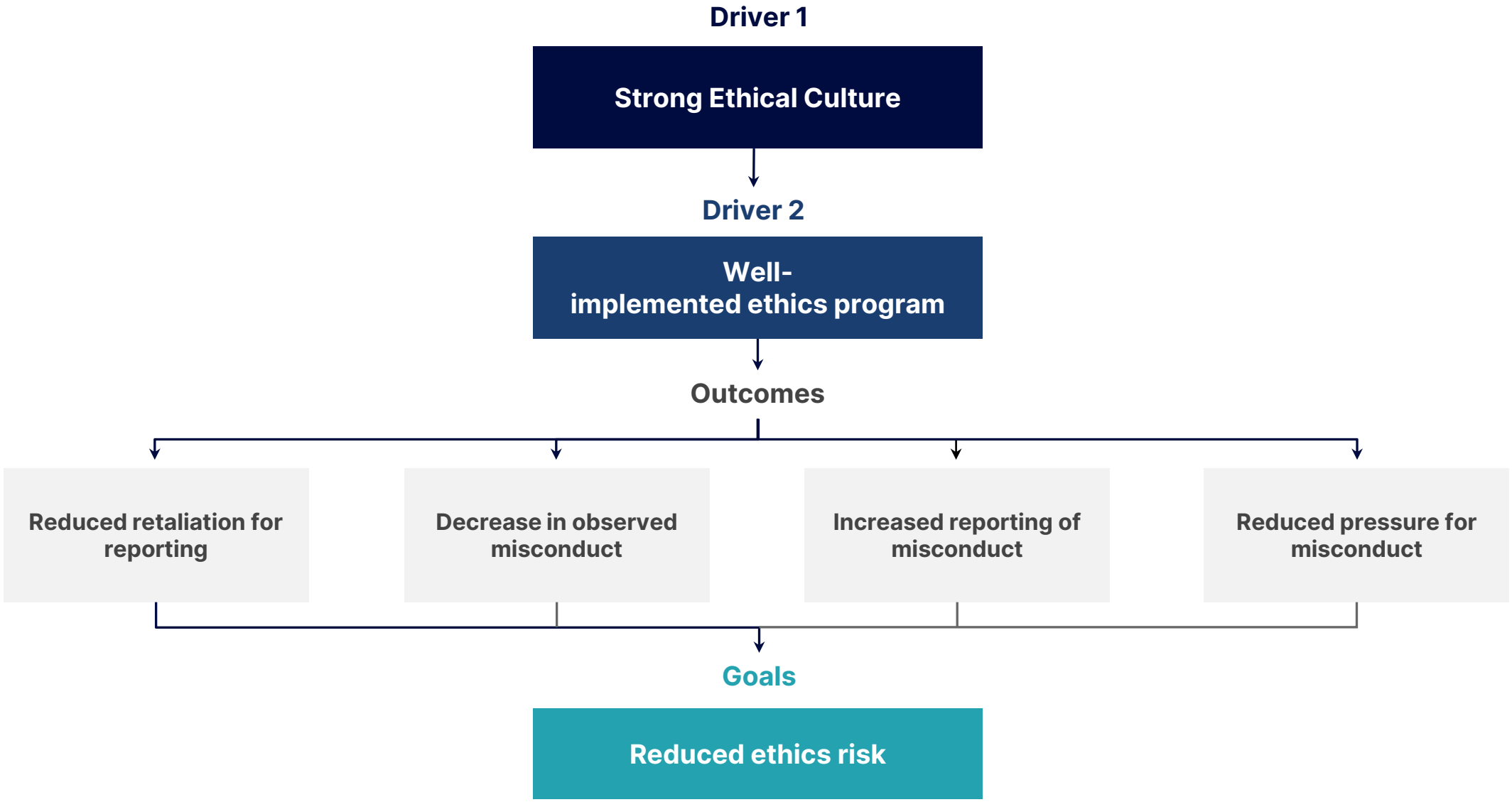
Fraud Diamond and Culture

Types of pressures or incentives that can cause someone to compromise ethical business conduct:



CGMA Report. Managing responsible business.

Mitigating Ethics Risk



Components of Strong Ethics Programs

01 **Written** standards for ethical conduct.

02 Training on company **standards** of ethical workplace conduct.

03 Provision of a **mechanism for reporting** misconduct anonymously.

04 Provision of a **mechanism** for **seeking ethics-related advice** or information.

05 Assessment of **ethical conduct** as part of employee performance evaluations.

06 Discipline of **employees** who **violated the standards** of the organization or the law.

Code of Conduct & Ethics Policies

Ethical code	An **ethical code** is adopted by an organization in an attempt to assist those in the organization called upon to make a decision to understand the difference between **'right' and 'wrong'** and to apply this understanding to their decision.
Code of conduct	A **code of conduct** is a set of rules outlining the **responsibilities** of, or proper **practices** for, an individual or organization.

Examples:

- The AICPA has a code of conduct.
- CIMA has a code of ethics.
- Professional engineers have a code of ethics, as do attorneys.
- CFI certification program candidates need to sign the Honor Pledge.

Code of Conduct & Ethics Policies

The topics that a code of conduct typically will cover:

01 **Respect for the Law**
Won't knowingly break any laws

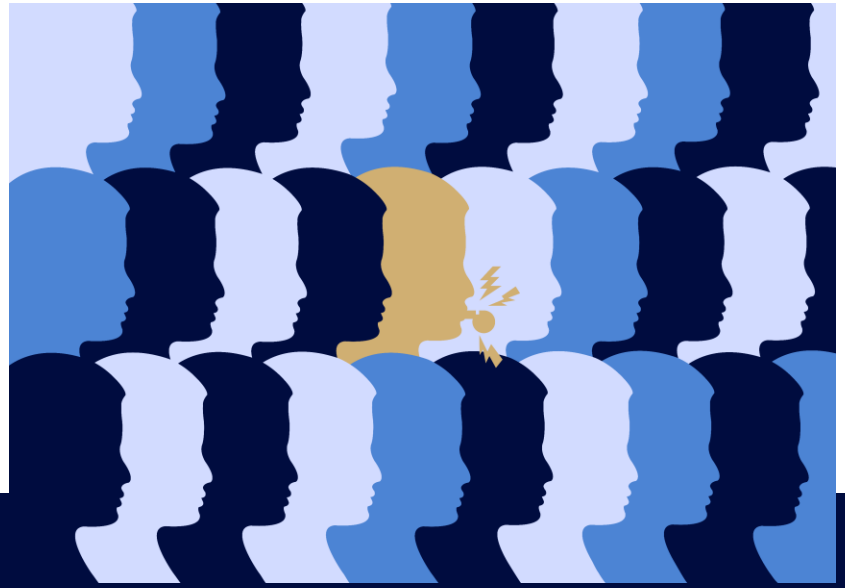
02 **Personal Integrity**
Act in an ethically responsible way

03 **Confidentiality of Information**
Any information you receive must be kept confidential

04 **Conflicts of Interest**
Won't take advantage of your employment for a personal benefit

05 **Compliance with the Code**
Failure of compliance will result in disciplinary action

Whistleblowing



Whistleblowing is the act of raising concerns about one or more acts that co-workers, superiors, or others connected to the company are performing that are essentially illegal.

This is usually attributed to fraud, corruption, or a health or safety concern that would threaten the public as a whole.

Who are the whistleblowers?
Company insiders; employees who have a strong moral compass

Who receives the report?
An independent party (e.g., designated whistleblowing hotlines or the chair of the audit committee)

Who investigates?
External investigators, corporate counsel, or independent audit committees

Whistleblowing

Remaining anonymous is crucial in whistleblowing for several reasons:

- **Protection from Retaliation**
- **Encourages Reporting**
- **Focus on the Issue**
- **Legal Safeguards**
- **Maintains Professional Relationships**
- **Promotes Accountability**

Anonymity shields whistleblowers from retaliation, such as termination, harassment, or discrimination, ensuring their safety.

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Fear of exposure can deter reporting. Anonymity removes this barrier, making it easier for individuals to come forward.

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Keeping whistleblowers anonymous ensures the focus remains on the misconduct rather than the person reporting it.

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Anonymity provides an extra layer of security, preventing the whistleblower's identity from being revealed during investigations.

Whistleblowing

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- Protection from Retaliation
- Encourages Reporting
- Focus on the Issue
- Legal Safeguards
- **Maintains Professional Relationships**
- Promotes Accountability

It minimizes workplace conflict and allows whistleblowers to continue working without fear of ostracization.

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- **Focus on the Issue**
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Anonymity not only safeguards the individual but also strengthens the integrity and effectiveness of the whistleblowing process.

Anonymity ensures that organizations take reports seriously, fostering ethical practices and stronger internal controls.

Professional Conduct

A Word About Integrity

Professional conduct is a companion concept to workplace ethics but is often associated with professionals.

In all instances, a professional must act with integrity.

- Honest and candid
- Free from personal gain and advantage
- Consider objectivity, independence, and due care

- Am I doing what a person of integrity would do?
- Have I retained my integrity?

If the answer is not yes, you should either refuse the work or the client and disclose the reason.

Independence and Objectivity

Independence (Relates to Environment)

Freedom from material conflicts of interest that threaten objectivity

Independence in Fact

No influences to impair your ability to make independent decisions.

- Having close personal or financial ties to the client
- Being paid a commission or a contingent fee

Independence in Appearance

Others perceive that you can make independent decisions.

- Previously worked for the client
- A family member is connected to the client

Objectivity (Relates to Individual or Team)

A state of mind in which biases do not inappropriately affect assessments, judgments, and decisions

Actual

Perceived

Example:

By accepting gifts from clients, you may feel obliged to make an assessment or decision you otherwise wouldn't have made.

> Therefore, independence means the ability to act with objectivity and integrity.

Conflicts of Interest

Conflicts of interest impact **independence** and **objectivity**, both of which are essential in client work.

A conflict of interest arises when there's a clash between personal interests and fiduciary responsibilities.

Individual

Organizational

Individual Conflicts of Interest

Individual conflicts of interest occur when an employee's personal gain comes at the expense of their organization.

For example:

- A supervisor is a family member and has control over the employee's responsibilities, salary, and promotions.
- An employee works part-time for a competitor.
- An employee accepts personal payment for services provided to customers outside of work.

Organizational Conflicts of Interest

These involve conflicts **between an organization and a third party**, such as a contractor or supplier.

For example:

- A contractor gains access to confidential information, giving them an unfair advantage for future contracts.
- A contractor creates the requirements for a request for proposal (RFP) and then bids on it, tailoring the rules to fit their capabilities.

Overlap Between Individual and Organizational Conflicts

Sometimes, individual and organizational conflicts intersect.

For example:

A procurement manager with a personal relationship with a vendor shares confidential information to help them win a contract. In return, the manager might receive a kickback or other personal benefit.

By understanding these types of conflicts, you can better identify and address them, preserving both personal integrity and organizational trust.

The Consequences of Conflicts

There are a number of risks that can surface where conflicts of interest arise:

Poor decision-making

Creation of an inappropriate work environment

Misuse of confidential information

Erosion of corporate culture

Areas Where Conflicts Occur

Example

You were involved in an M&A deal and had to conduct due diligence on a company that you had an indirect financial interest in.

What impact could this have on your ability to make an unbiased report?

How could others perceive your objectivity if they knew of your financial interest?

Conflicts of interest must be disclosed as soon as they are known.

Approaches to Ethical Decision-Making

Ethical Decision-Making Framework

When faced with an ethical dilemma, you will want to apply a framework to decide the right course of action to take.

01 What are the facts?

02 Available alternatives

03 Laws, regulations, policies, and procedures

04 Stakeholders and consequences

05 Values of yours and of the organization

06 Relationships between the stakeholders

07 Link with organization's mission and reputation

08 Possible influences and personal interests

09 Make decisions and take action

10 Verification

Ethical Considerations

How can ethical decisions be influenced?
Decision-making involving ethical considerations is influenced significantly by the personal characteristics of the decision-maker.

Personal values

They serve to evaluate situations and others' behavior.

Level of control

The extent to which one feels control over life events.

Level of moral development

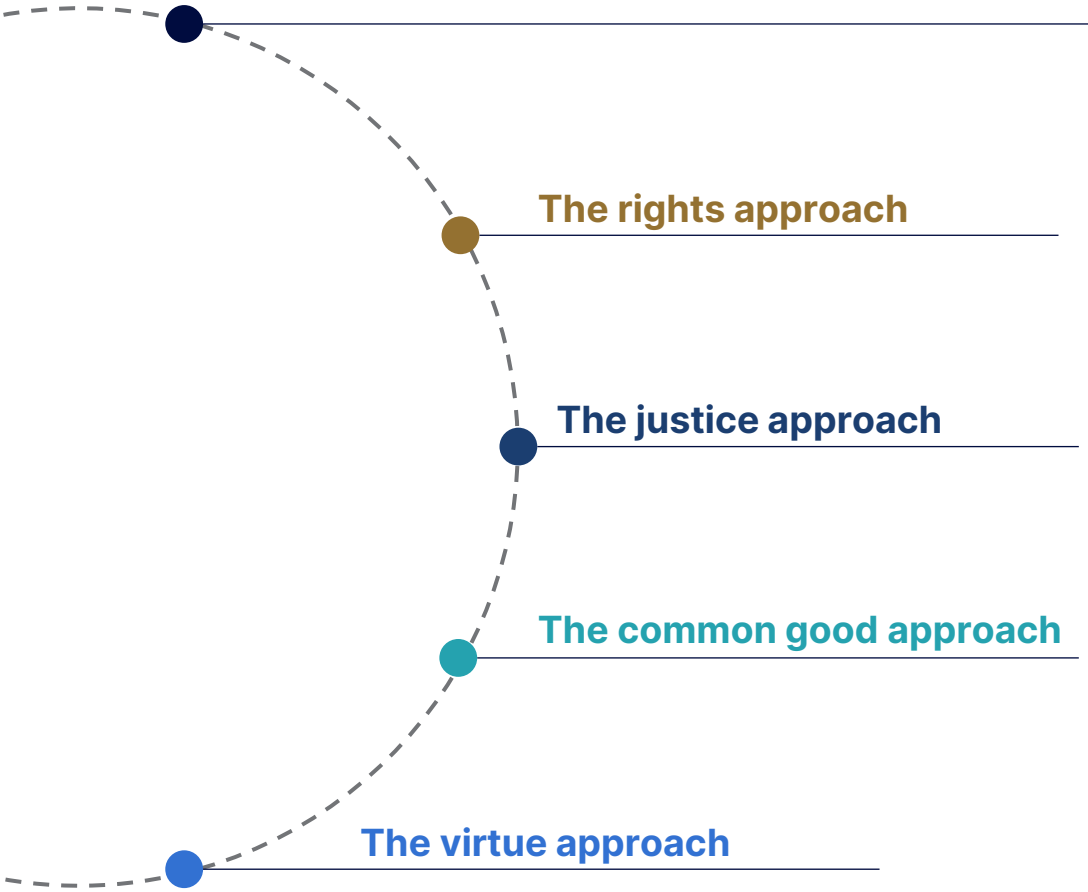
Takes into account one's moral obligations towards others and one's personal self-interest.

Organizational culture and rewards

Includes current practices and policies, beliefs, values, and assumptions that influence daily conduct.

Utilitarian Approach

According to the utilitarian approach, ethical actions are those that provide the greatest balance of good over evil.



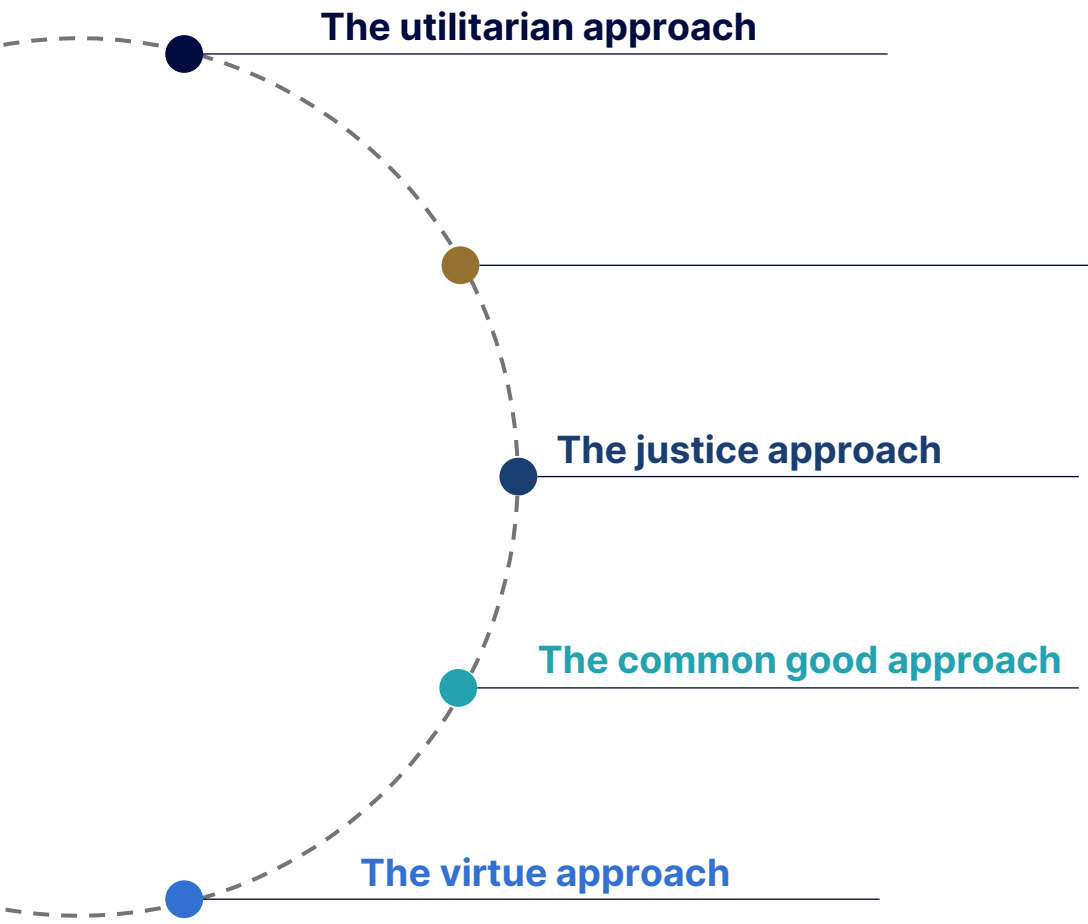
The utilitarian approach

- Identify the various courses of action available.
- Ask who will be affected by each action and what benefits or harms will be derived from each.
- Choose the action that will produce the greatest benefits and the least harm.

The utilitarian approach overall assumes that the right action to take is the one that provides the greatest good for the greatest number.

Rights Approach

The rights approach starts with the right to choose freely.

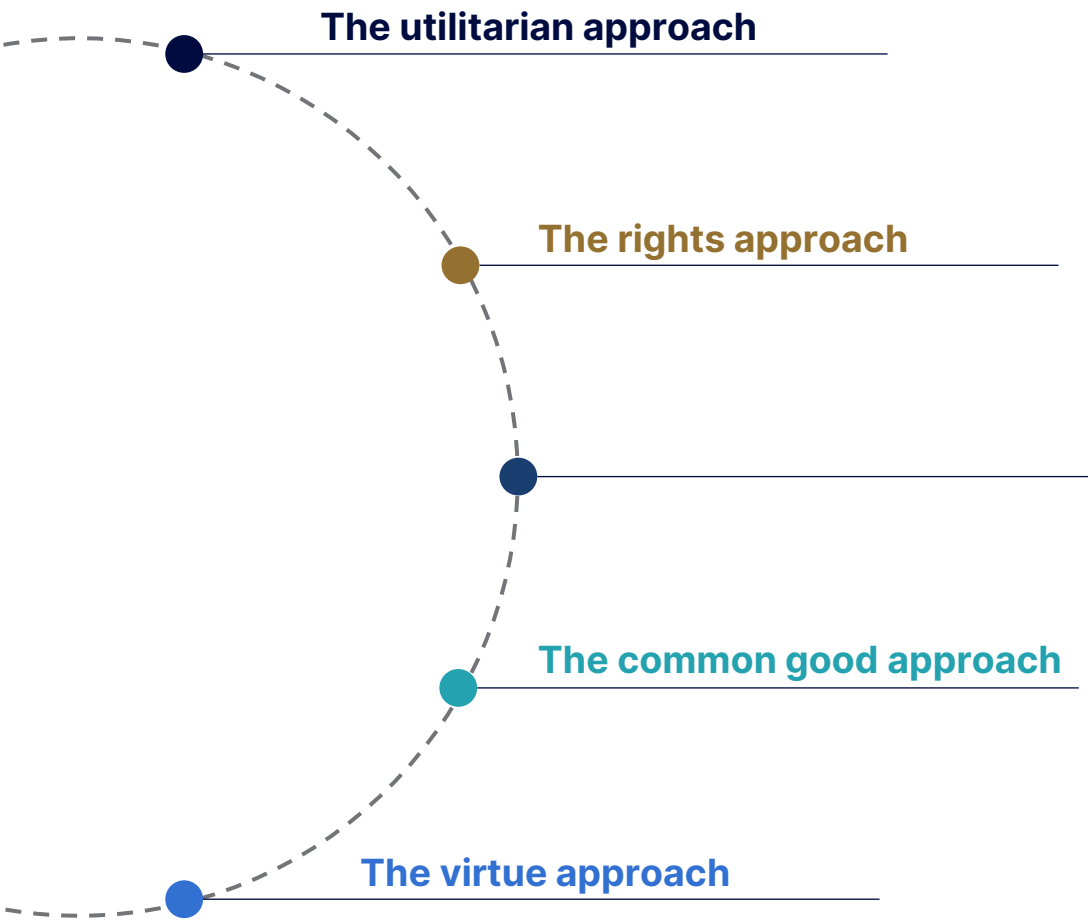


- The right to privacy
- The right to the truth
- The right not to be injured
- The right to what is agreed

Does the action respect the moral rights of everyone?

Justice Approach

The justice approach considers the fairness of an action.



Both favoritism and discrimination are unjust and wrong.

How do you justify the decision that you make?

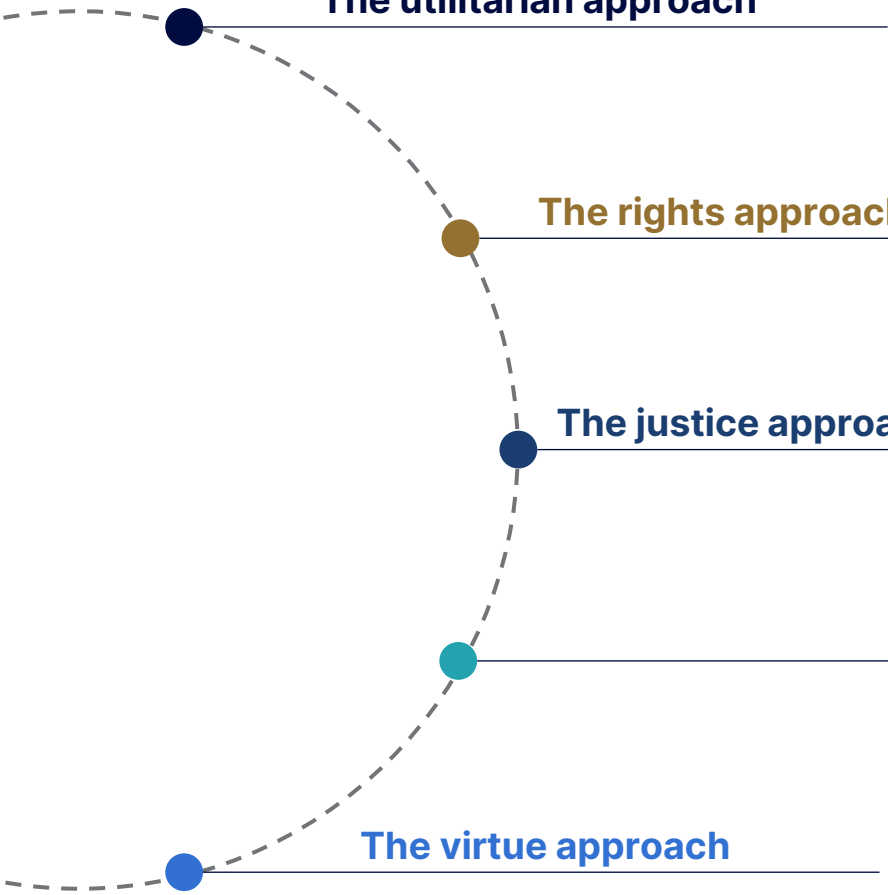
Is there an alternative decision that will protect the stakeholders from favoritism and/or discrimination?

The justice approach

- Does it treat everyone the same way, or does it show favoritism and discrimination?
- Favoritism benefits some people without a justifiable reason for singling them out.
- Discrimination imposes burdens on people who are no different from those on whom burdens are not imposed.

Common Good Approach

The common good approach assumes a society of individuals whose own good is linked to the good of the community.

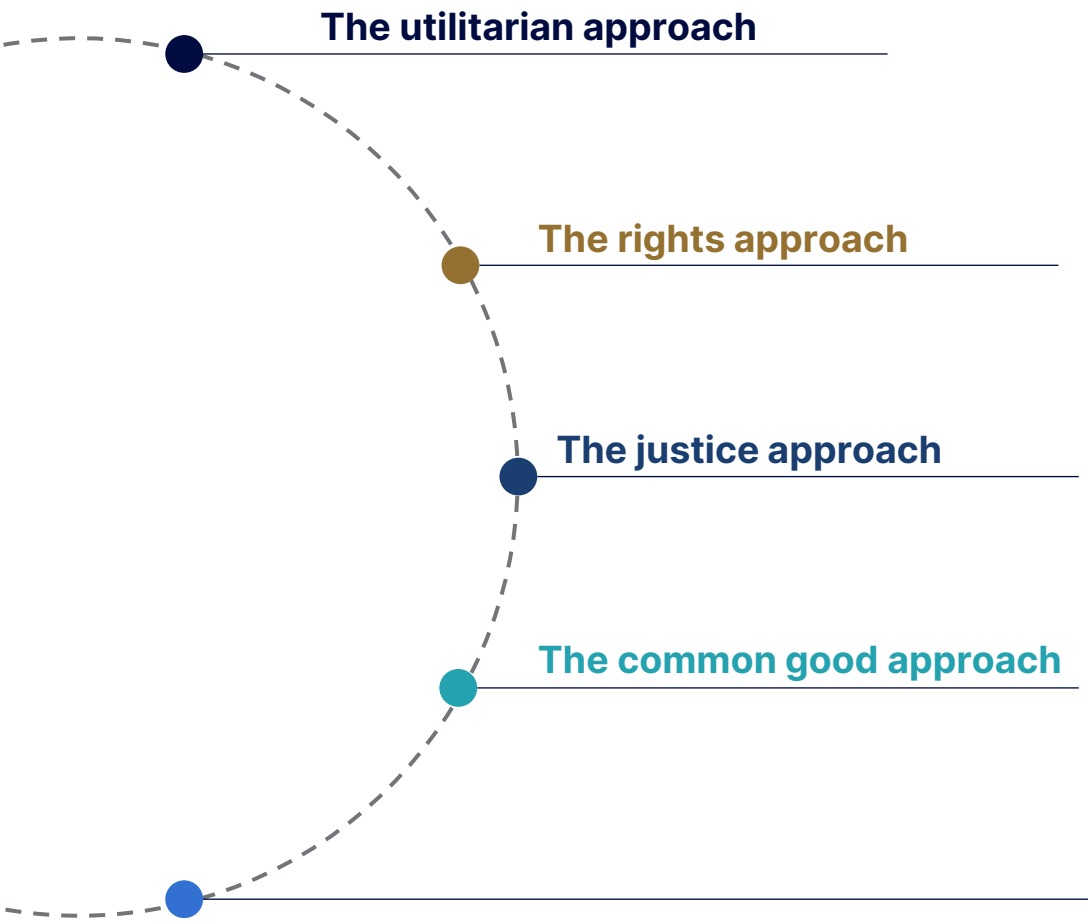


- Will your decision ensure that the social policies, social systems, institutions, and environments are beneficial to all?
- How can the action you wish to take positively impact society?
- What good to the community will it bring?
- Will it help improve the health or safety of the community?
- Will it improve the environment?
- Will it encourage fairness?

The common good approach

Virtue Approach

The virtue approach to ethics assumes that there are certain ideals toward which we should strive.



Will the decision you wish to make cast you as a virtuous person?

Will you feel that the decision has helped you promote the person you want to be?

Would others perceive you as virtuous for making that decision?

- Virtues are attitudes or character traits that enable us to be and to act in ways that develop our highest potential.
- Virtues allow us to pursue the ideals we have adopted.
- A person who has developed virtues will be naturally disposed to act in ways consistent with moral principles.